

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Charter Township of Fruitport	County Muskegon
Audit Date 3/31/06	Comptroller Date 7/31/06	Date Accountant Report Submitted to State: 8/15/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGR).			✓

Certified Public Accountant (Firm Name) Brickley DeLong, PLC			
Street Address 500 Terrace Plaza, P.O. Box 999	City Muskegon	State MI	ZIP 49443-0999
Accountant Signature <i>Theresa J. Carter, CPA for Brickley DeLong, PLC</i>		Date 8/15/06	

Charter Township of Fruitport
Muskegon County, Michigan

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended March 31, 2006

Charter Township of Fruitport

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As management of the Charter Township of Fruitport, we present to the readers of the Township's financial statements this overview and analysis of the financial activities of the Township for the fiscal year ended March 31, 2006. We encourage you to consider the information presented in these financial statements along with the additional information that has been furnished in this letter.

FINANCIAL HIGHLIGHTS

Assets of the Township exceeded liabilities at the close of the fiscal year by \$19,256,619 (net assets). Of this amount, \$7,075,437 (unrestricted net assets) may be used to meet ongoing obligations to citizens and creditors.

Governmental activities had net assets totaling \$2,309,932 while business-type activities ended the year with \$16,946,687 in total net assets.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Township's finances. These statements are similar to those of a private sector business.

The Statement of Net Assets presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The Statement of Activities presents information showing how the Township's net assets changed during the fiscal year. All changes in net assets are reported when the event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide financial statements mentioned above distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are designed to recover all or a significant part of their costs through user fees and charges for services (business-type activities). The governmental activities of the Township include general government, public safety, public works, community and economic development and cultural and recreational activities. The business-type activities of the Township include water distribution and sewer services.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into three categories-governmental funds, proprietary funds and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating a governmental entity's short-term financing requirements.

Because the focus of governmental funds is narrower, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison.

The Township maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and Public Safety Fund, which are considered major funds. Data from the other funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

Proprietary Funds. The Township has two enterprise proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Township uses enterprise funds to account for its water distribution and sewer operations.

Enterprise funds provide the same type of information as the government-wide financial statements, only in more detail. The enterprise funds financial statements provided separate information for the Sewer and Water funds, both of which are major funds.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the Township. Fiduciary funds are not reflected on the government-wide financial statements because the resources from those funds are not available to support the Township's programs. The accounting method used for fiduciary funds is much like that used for the proprietary funds.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The reader is encouraged to include the reading of this section in any attempt to analyze and understand these statements.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Township's budgetary information as it relates to the actual expenditures for the General Fund and Public Safety Fund.

The combining statements referred to earlier in connection with the non-major governmental funds are presented immediately following the required supplemental information on budgetary information.

Government-wide Financial Analysis

The first table presented below is a summary of the government-wide statement of net assets for the Township. As stated earlier, the net assets may be used as an indicator of a government's financial health. As of March 31, 2006, the Township's net assets from governmental activities totaled \$2,309,932 (12%) and \$16,946,687 (88%) from business-type activities, creating a total government-wide net assets total of \$19,256,619.

In examining the composition of these net assets, the reader should note that governmental activities net assets are invested in capital assets (i.e., buildings, land, vehicles, equipment, etc.) These assets are used to provide services to the Township's residents, and they are not available to pay salaries, operational expenses or fund capital projects. The unrestricted net assets for governmental activities actually depict a balance of \$1,042,628. This represents the amount of discretionary resources that can be used for general governmental operations.

For governmental activities, the growth in capital assets and the corresponding invested in capital assets, net of related debt is due to the restatement of net assets by \$380,500 to record additional land that was not initially included in the Township's GASB 34 restatement last year.

The business-type activities show a total of \$16,946,687 in net assets and \$6,032,809 in unrestricted net assets. The Sewer Fund and Water Fund unrestricted net assets are \$1,650,563 and \$4,382,246, respectively.

For business-type activities, capital assets and the corresponding invested in capital assets, net of related debt increased due to the ongoing expansion of the Township's water and sewer systems.

Charter Township of Fruitport

Management's Discussion and Analysis

Net Assets

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current assets and other assets	\$ 1,718,733	\$ 1,874,604	\$ 8,955,178	\$ 8,912,022	\$ 10,673,911	\$ 10,786,626
Capital assets	1,270,985	928,779	14,353,930	13,409,900	15,624,915	14,338,679
Total assets	2,989,718	2,803,383	23,309,108	22,321,922	26,298,826	25,125,305
Current liabilities	170,063	135,517	436,135	516,326	606,198	651,843
Noncurrent liabilities	509,723	568,133	5,926,286	6,216,286	6,436,009	6,784,419
Total liabilities	679,786	703,650	6,362,421	6,732,612	7,042,207	7,436,262
Net assets						
Invested in capital assets, net of related debt	822,740	409,803	8,303,100	6,990,136	9,125,840	7,399,939
Restricted	444,564	409,721	2,610,778	2,623,609	3,055,342	3,033,330
Unrestricted	1,042,628	1,280,209	6,032,809	5,975,565	7,075,437	7,255,774
Total net assets	\$ 2,309,932	\$ 2,099,733	\$ 16,946,687	\$ 15,589,310	\$ 19,256,619	\$ 17,689,043

Governmental Activities

Net assets of the Township's governmental activities decreased by \$170,301 (7%) during the 2006 fiscal year. The following table shows these results.

The Township's charges for services increased by \$102,835 in the 2006 fiscal year. This was due mainly to larger contract payments received from Sullivan Township for fire service protection. In addition, the Township set up a special assessment for the paving of Mount Garfield Road. The Township's capital grants and contributions decreased by \$81,608. This is due to the contribution of voting machines from the State of Michigan, a large Homeland Security grant and donation of a scoreboard for a soccer field in the prior year. Property tax revenues increased \$517,188 in the 2006 fiscal year due to a new public safety millage and growth in the Township's taxable value. General government expenditures increased \$126,632 due to a lawsuit settlement, an increase in deputy supervisor salary, and an increase in the deputy treasurer's salary. Public safety expenditures increased \$360,211 because it was the first full year of the police department's operations. Public works expenditures increased \$319,627 due to the paving of Harvey Street and Mount Garfield Road.

Business-type Activities

At the end of the fiscal year, the net assets for business-type activities increased \$1,357,377 or 9%. Two funds comprise the business-type activities. The Sewer Fund and Water Fund experienced an increase in net assets for the year of \$147,361 and \$1,210,016, respectively.

The Township's charges for services in the business-type activities increased \$246,299 as a result of significant growth in the Township's water and sewer systems. Capital grants and contributions were down \$146,049 due to fewer new connections in the current year. Unrestricted investment earnings increased \$77,568 due to higher interest rates. Business-type activity expenses in the Sewer Fund increased by \$86,614 and Water Fund expenses increased by \$110,993 due to increased salaries and operating expenses.

Change in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues						
Charges for services	\$ 354,679	\$ 251,844	\$ 1,385,042	\$ 1,138,743	\$ 1,739,721	\$ 1,390,587
Operating grants	8,438	-	-	-	8,438	-
Capital grants and contributions	-	90,046	1,690,301	1,836,350	1,690,301	1,926,396
General revenues						
Property taxes	1,644,039	1,126,851	-	-	1,644,039	1,126,851
Franchise fees	77,840	73,062	-	-	77,840	73,062
Grants and contributions not restricted	807,438	821,721	-	-	807,438	821,721
Unrestricted investment earnings	56,101	30,096	380,096	302,528	436,197	332,624
Miscellaneous	25,955	5,431	17,298	9,973	43,253	15,404
Total revenues	2,974,490	2,399,051	3,472,737	3,287,594	6,447,227	5,686,645

Management's Discussion and Analysis

	Governmental		Business-type		Total	
	Activities		Activities			
	2006	2005	2006	2005	2006	2005
Expenses:						
General government	\$ 783,593	\$ 656,961	\$ -	\$ -	\$ 783,593	\$ 656,961
Public safety	1,643,962	1,283,751	-	-	1,643,962	1,283,751
Public works	542,076	222,449	-	-	542,076	222,449
Community and economic development	21,303	22,381	-	-	21,303	22,381
Culture and recreation	179,418	142,261	-	-	179,418	142,261
Interest on long term debt	24,439	27,180	-	-	24,439	27,180
Sewer Fund	-	-	524,429	437,815	524,429	437,815
Water Fund	-	-	1,540,931	1,429,938	1,540,931	1,429,938
Total expenses	<u>3,194,791</u>	<u>2,354,983</u>	<u>2,065,360</u>	<u>1,867,753</u>	<u>5,260,151</u>	<u>4,222,736</u>
Change in net assets before transfers	(220,301)	44,068	1,407,377	1,419,841	1,187,076	1,463,909
Transfers	<u>50,000</u>	<u>50,000</u>	<u>(50,000)</u>	<u>(50,000)</u>	<u>-</u>	<u>-</u>
Change in net assets	(170,301)	94,068	1,357,377	1,369,841	1,187,076	1,463,909
Net assets - Beginning	2,099,733	2,005,665	15,589,310	14,219,469	17,689,043	16,225,134
Restatement	<u>380,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>380,500</u>	<u>-</u>
Net assets - Ending	<u>\$ 2,309,932</u>	<u>\$ 2,099,733</u>	<u>\$ 16,946,687</u>	<u>\$ 15,589,310</u>	<u>\$ 19,256,619</u>	<u>\$ 17,689,043</u>

Financial Analysis of the Government's Funds

As stated earlier in this discussion and analysis, the Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the Township's governmental funds is to provide information on near-term inflows, outflows, and balances in spendable resources. Such information is useful in assessing the Township's financing requirements. In particular, unreserved fund balances or the lack thereof, may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the 2006 fiscal year, the governmental funds reported a combined fund balance of \$1,632,489. This number represents the fund balance of \$1,189,208 in the General Fund, \$86,325 in the Public Safety Fund and \$356,956 in other governmental funds. It is necessary to further distinguish between the unreserved and reserved fund balance. The unreserved balance represents what is available for spending at the Township's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of \$46,524, pay for capital projects of \$92,278, pay for racetrack projects of \$179,886 and for permit expenditures of \$2,698.

The General Fund is the chief operating fund of the Township. At the end of the fiscal year 2006, the unreserved General Fund fund balance was \$960,100 and the total General Fund fund balance was \$1,189,208. As a measure of the General Fund's liquidity, it may be useful to compare both the unreserved fund balance to total fund expenditures. Unreserved fund balance represents 95% of the General Fund expenditures.

Proprietary Funds. The Township's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Net assets of the Sewer Fund and Water Fund increased by \$147,361 and \$1,210,016, respectively. The result was an overall net increase in the proprietary funds of \$1,357,377.

General Fund Budget

During the current fiscal year, the Township made several amendments to its original General Fund budget. The most significant of those is listed below:

- Property taxes were originally budgeted for \$1,423,497 and were amended down to \$518,661 because a new public safety fund was created and property taxes were reallocated to this fund.
- Township board was originally budgeted for \$90,453 and was amended up to \$140,453 because the Township lost a lawsuit and was required to pay a settlement.
- Elections were originally budgeted for \$5,500 and were amended up to \$9,928 because salaries for elections increased due to an unanticipated election.
- Building and grounds were originally budgeted for \$22,550 and were amended up to \$30,512 because salaries and contracted services increased.
- All public safety budgets were amended to \$0 and their activity was transferred to a new Public Safety Fund.
- Roads were originally budgeted for \$471,700 and were amended down to \$171,700 because a new revolving road fund was created during the year.
- Racetrack was originally budgeted for \$45,630 and was amended up to \$61,575 because of additional legal fees incurred.
- Debt service expenditures were amended down as payments on debt associated with public safety were moved to the new Public Safety Fund.
- Capital outlay was originally budgeted for \$130,650 and was amended down to \$37,520 because activity associated with public safety was moved to the new Public Safety Fund.
- Transfers out was originally budgeted for \$120,000 for an operating subsidy to the Recreation Fund and was amended up to \$1,267,206 for operating subsidies to the new Public Safety Fund and Revolving Road Fund.

Budget Variations

The following comments summarize the major variations from the final budget to actual revenues and expenditures.

- General Fund property taxes were \$555,990, \$37,329 more than budgeted because penalties and interest, summer tax reimbursement and administration fees were all higher than anticipated.
- General Fund investment earnings were \$50,121, \$42,121 more than budgeted because interest rates were higher than expected.
- General Fund road expenditures were \$106,873, \$64,827 less than budgeted because new road construction costs were less than anticipated.
- General Fund bike path expenditures were \$11,173, \$99,827 less than budgeted because new bike paths were not constructed as anticipated.
- The General Fund's other governmental functions were \$82,211, \$22,211 more than budgeted because insurance costs were higher than expected.
- General Fund capital outlay was \$8,123, \$39,397 less than budgeted because fewer capital assets were purchased than anticipated.

Capital Assets

The Township's investment in capital assets for its governmental and business-type activities as of March 31, 2006 totaled \$15,624,915 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, furniture, machinery, equipment, utility systems and vehicles.

Major governmental capital asset events during the current year included the following:

- A snow blower was purchased for the bike paths for \$8,123.
- A new driveway was paved at Pine Park for \$5,000.
- Major repairs were made to fire truck #542 for \$24,490.
- A 2005 Ford police car was purchased for \$19,740.
- A 2005 Chevrolet truck was purchased in the sewer fund for \$16,765 and a utility box was purchased for that truck for \$8,195.
- The sewer department constructed a sewer line on Quarterline Road south of Mt. Garfield for \$85,607 and a sewer line connector on Quarterline Road.
- The sewer department also constructed a sewer line on Walker Road for \$257,974.
- A 2005 Chevrolet truck was purchased in the water fund for \$16,746 and a utility box was purchased for that truck for \$7,397.
- The water department constructed a water line on Quarterline Road for \$71,083.
- The water department constructed a water line extension on Farr, Brooks and Stringer Roads for \$688,513.

Capital Assets (Net of Accumulated Depreciation)

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$ 421,385	\$ 40,885	\$ -	\$ -	\$ 421,385	\$ 40,885
Construction in progress	-	-	860,077	528,399	860,077	528,399
Land improvements	18,783	14,667	-	-	18,783	14,667
Buildings and improvements	350,654	364,284	-	-	350,654	364,284
Furniture and equipment	96,062	97,401	48,965	56,568	145,027	153,969
Vehicles	384,101	411,542	28,484	-	412,585	411,542
Utility systems	-	-	13,416,404	12,824,933	13,416,404	12,824,933
Total	<u>\$ 1,270,985</u>	<u>\$ 928,779</u>	<u>\$ 14,353,930</u>	<u>\$ 13,409,900</u>	<u>\$ 15,624,915</u>	<u>\$ 14,338,679</u>

Additional information on the Township's capital assets can be found in Note D of the "Notes to Financial Statements" of this report.

Long-Term Debt

At the end of the fiscal year, the Township had total outstanding debt of \$6,755,009 consisting of general obligations bonds, special assessment debt, installment purchase agreements, land contract agreements and compensated absences. The general obligation debt of \$4,990,904 and special assessment debt of \$1,175,000 is backed by the full-faith and credit of the Township.

Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
General obligations bonds	\$ -	\$ -	\$ 4,945,905	\$ 5,213,786	\$ 4,945,905	\$ 5,213,786
Special assessment bonds	-	-	1,175,000	1,270,000	1,175,000	1,270,000
Installment purchase agreements	220,782	281,640	-	-	220,782	281,640
Land contract agreements	227,463	237,336	-	-	227,463	237,336
Compensated absences	139,478	150,157	46,381	-	185,859	150,157
Total	<u>\$ 587,723</u>	<u>\$ 669,133</u>	<u>\$ 6,167,286</u>	<u>\$ 6,483,786</u>	<u>\$ 6,755,009</u>	<u>\$ 7,152,919</u>

The Township's total debt decreased by \$397,910 during the fiscal year. This decrease was due to the normal debt payoffs as provided for in the fiscal year 2006 budget, offset by an increase in accumulated compensated absences and an increase in general obligation debt due to an amendment in the debt agreement between the Township and the County.

Additional information on the Township's long-term debt can be found in Note I of the "Notes to Financial Statements" of this report.

General Economic Overview

The Township's General Fund has two major revenue sources, state revenue sharing and property tax revenue. Those two sources comprised over 77% of the General Fund revenue sources. In fiscal 2007, state revenue sharing is expected to increase a little. Property tax revenues are expected to increase due to growth by at least 3%.

The Township's expenditures are expected to increase in the police department because the department is still getting established. The police department has also budgeted for the purchase of a new police car. The other Township departments are expected to be consistent with last year.

The Township is currently working on road projects on Harvey Street and Mount Garfield Road. There are four additional possible road projects next year for LeClare Road, South Cooley Road, Quarterline Road, and Mount Garfield Road from Maple Island Road to Hilton Park.

The Township is also pursuing a grant in excess of \$1 million from the State of Michigan for an additional four to nine miles of bike paths.

The Township is also working on extending the water line on Brooks Road north to Heights Ravenna. A grant for sewer expansion on Pontaluna Road from Sheridan Road to Airline Road in the Village of Fruitport is also being pursued. The estimated total cost of the project is \$11 million and the grant would cover approximately 25% of the cost.

The Township is also considering purchasing ten additional acres for the possible new Township hall. The land is adjacent to some property that the Township is currently purchasing through a land contract. The Township is also hopeful to have an architect draw up some plans for a new Township hall building in fiscal year 2007.

Requests for Information

This financial report is designed to provide a general overview of the Charter Township of Fruitport's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Charter Township of Fruitport, 6543 Airline Road, Fruitport, Michigan, 49415, (231) 865-3151.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

July 31, 2006

Township Board
Charter Township of Fruitport
Fruitport, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Fruitport, Michigan as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Charter Township of Fruitport, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Fruitport, Michigan, as of March 31, 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages i - x and 30 - 31 are not a required part of the basic financial statement but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter Township of Fruitport, Michigan's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Charter Township of Fruitport
STATEMENT OF NET ASSETS
March 31, 2006

ASSETS

	Governmental activities	Business-type activities	Total
CURRENT ASSETS			
Cash and investments	\$ 1,342,739	\$ 2,774,908	\$ 4,117,647
Receivables	113,480	537,163	650,643
Due from other governmental units	153,754	196,754	350,508
Internal balances	45,471	(45,471)	-
Inventories	-	10,000	10,000
Prepaid items	62,018	12,889	74,907
Total current assets	1,717,462	3,486,243	5,203,705
NONCURRENT ASSETS			
Restricted assets	-	2,668,948	2,668,948
Capital assets, net			
Nondepreciable	421,385	860,077	1,281,462
Depreciable	849,600	13,493,853	14,343,453
Access rights, net	-	45,636	45,636
Bond issuance costs, net	-	24,440	24,440
Special assessments receivable	1,271	2,729,911	2,731,182
Total noncurrent assets	1,272,256	19,822,865	21,095,121
Total assets	2,989,718	23,309,108	26,298,826
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	50,416	142,517	192,933
Due to other governmental units	41,647	52,618	94,265
Bonds and other obligations due within one year	78,000	241,000	319,000
Total current liabilities	170,063	436,135	606,198
NONCURRENT LIABILITIES			
Bonds and other obligations, less amounts due within one year	509,723	5,926,286	6,436,009
Total liabilities	679,786	6,362,421	7,042,207
NET ASSETS			
Invested in capital assets, net of related debt	822,740	8,303,100	9,125,840
Restricted for:			
Street lights	264,678	-	264,678
Racetrack projects	179,886	-	179,886
Debt service	-	2,610,778	2,610,778
Unrestricted	1,042,628	6,032,809	7,075,437
Total net assets	\$ 2,309,932	\$ 16,946,687	\$ 19,256,619

The accompanying notes are an integral part of this statement.

Charter Township of Fruitport
STATEMENT OF ACTIVITIES
For the year ended March 31, 2006

<i>Functions/Programs</i>	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Assets		
		Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Total
Governmental activities							
General government	\$ 783,593	\$ 106,507	\$ -	\$ -	\$ (677,086)	\$ -	\$ (677,086)
Public safety	1,643,962	88,273	8,438	-	(1,547,251)	-	(1,547,251)
Public works	542,076	69,307	-	-	(472,769)	-	(472,769)
Community and economic development	21,303	32,101	-	-	10,798	-	10,798
Culture and recreation	179,418	58,491	-	-	(120,927)	-	(120,927)
Interest on long-term debt	24,439	-	-	-	(24,439)	-	(24,439)
Total governmental activities	3,194,791	354,679	8,438	-	(2,831,674)	-	(2,831,674)
Business-type activities							
Sewer	524,429	166,845	-	353,757	-	(3,827)	(3,827)
Water	1,540,931	1,218,197	-	1,336,544	-	1,013,810	1,013,810
Total business-type activities	2,065,360	1,385,042	-	1,690,301	-	1,009,983	1,009,983
Total government	<u>\$ 5,260,151</u>	<u>\$ 1,739,721</u>	<u>\$ 8,438</u>	<u>\$ 1,690,301</u>	(2,831,674)	1,009,983	(1,821,691)
General revenues							
Property taxes, levied for							
General purposes					555,990	-	555,990
Specific purposes					1,088,049	-	1,088,049
Franchise fees					77,840	-	77,840
Grants and contributions not restricted to specific programs					807,438	-	807,438
Unrestricted investment earnings					56,101	380,096	436,197
Miscellaneous					25,955	17,298	43,253
Transfers					50,000	(50,000)	-
Total general revenues and transfers					2,661,373	347,394	3,008,767
Change in net assets					(170,301)	1,357,377	1,187,076
Net assets at April 1, 2005, as restated					2,480,233	15,589,310	18,069,543
Net assets at March 31, 2006					<u>\$ 2,309,932</u>	<u>\$ 16,946,687</u>	<u>\$ 19,256,619</u>

The accompanying notes are an integral part of this statement.

Charter Township of Fruitport
BALANCE SHEET
Governmental Funds
March 31, 2006

	General Fund	Public Safety Fund	Other governmental funds	Total governmental funds
ASSETS				
Cash and investments	\$ 727,256	\$ 349,279	\$ 266,204	\$ 1,342,739
Receivables				
Accounts	5,264	-	-	5,264
Property taxes	33,739	56,275	10,198	100,212
Special assessments	3,114	-	6,162	9,276
Due from other governmental units	153,754	-	-	153,754
Due from other funds	358,415	-	94,947	453,362
Prepaid items	46,524	13,537	1,957	62,018
Total assets	<u>\$ 1,328,066</u>	<u>\$ 419,091</u>	<u>\$ 379,468</u>	<u>\$ 2,126,625</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ -	\$ 2,047	\$ 10,265	\$ 12,312
Accrued liabilities	7,506	17,775	921	26,202
Due to other governmental units	35,131	-	6,516	41,647
Due to other funds	94,947	312,944	-	407,891
Deferred revenue	1,271	-	4,810	6,081
Total liabilities	138,855	332,766	22,512	494,133
Fund balances				
Reserved for:				
Prepaid items	46,524	-	-	46,524
Capital projects	-	-	92,278	92,278
Racetrack projects	179,886	-	-	179,886
Permits	2,698	-	-	2,698
Unreserved				
Designated, reported in General Fund	208,613	-	-	208,613
Undesignated, reported in				
General Fund	751,487	-	-	751,487
Special revenue funds	-	86,325	264,678	351,003
Total fund balances	1,189,208	86,325	356,956	1,632,489
Total liabilities and fund balances	<u>\$ 1,328,063</u>	<u>\$ 419,091</u>	<u>\$ 379,468</u>	<u>\$ 2,126,622</u>

The accompanying notes are an integral part of this statement.

Charter Township of Fruitport
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS**
March 31, 2006

Total fund balance—governmental funds		\$ 1,632,489
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Amounts reported for governmental activities in the Statement of Net Assets
are different because:

Capital assets used in governmental activities are not financial resources and
are not reported in the governmental funds.

Cost of capital assets	\$ 2,229,787	
Accumulated depreciation	<u>(958,802)</u>	1,270,985

Accrued interest in governmental activities is not reported in the governmental funds.		(11,900)
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Special assessment revenue is not recognized until it is receivable in the current period and therefore is shown as deferred revenue in the governmental funds.		6,081
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Long-term liabilities in governmental activities are not due and payable in the
current period and are not reported in the governmental funds.

Bonds and contracts payable	(448,245)	
Compensated absences	<u>(139,478)</u>	<u>(587,723)</u>

Net assets of governmental activities in the Statement of Net Assets		\$ <u><u>2,309,932</u></u>
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The accompanying notes are an integral part of this statement.

Charter Township of Fruitport
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Governmental Funds
For the year ended March 31, 2006

	General Fund	Public Safety Fund	Other governmental funds	Total governmental funds
REVENUES				
Property taxes	\$ 555,990	\$ 926,324	\$ 161,725	\$ 1,644,039
Licenses and permits	114,536	-	-	114,536
Intergovernmental revenues				
Federal	-	8,438	-	8,438
State	807,438	-	-	807,438
Charges for services	177,003	-	-	177,003
Fines and forfeitures	1,208	-	-	1,208
Investment earnings	50,121	114	5,866	56,101
Other	75,754	24,390	63,344	163,488
Total revenues	1,782,050	959,266	230,935	2,972,251
EXPENDITURES				
Current				
General government	697,189	-	-	697,189
Public safety	-	1,585,966	-	1,585,966
Public works	118,046	-	401,733	519,779
Community and economic development	21,302	-	-	21,302
Culture and recreation	77,498	-	96,749	174,247
Other governmental functions	82,211	-	-	82,211
Debt service				
Principal	2,710	68,021	-	70,731
Interest and fees	4,690	26,139	-	30,829
Capital outlay	8,123	44,230	5,000	57,353
Total expenditures	1,011,769	1,724,356	503,482	3,239,607
Excess of revenues over (under) expenditures	770,281	(765,090)	(272,547)	(267,356)
OTHER FINANCING SOURCES (USES)				
Transfers in	50,000	851,415	401,387	1,302,802
Transfers out	(1,252,802)	-	-	(1,252,802)
Total other financing sources (uses)	(1,202,802)	851,415	401,387	50,000
Net change in fund balances	(432,521)	86,325	128,840	(217,356)
Fund balances at April 1, 2005	1,621,729	-	228,116	1,849,845
Fund balances at March 31, 2006	\$ 1,189,208	\$ 86,325	\$ 356,956	\$ 1,632,489

The accompanying notes are an integral part of this statement.

Charter Township of Fruitport
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**

For the year ended March 31, 2006

Net change in fund balances—total governmental funds	\$ (217,356)
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures; in the Statement of Activities, these costs are depreciated over their estimated useful lives.

Depreciation expense	\$ (95,648)	
Capital outlay	<u>57,354</u>	(38,294)

Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	70,731
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Interest expense on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in the governmental funds until paid.	1,700
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Compensated absences are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.	10,679
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Governmental funds recognize special assessments as revenue as they become current, however, they are recognized in full when levied in the Statement of Net Assets.	<u>2,239</u>
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Change in net assets of governmental activities	<u><u>\$ (170,301)</u></u>
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The accompanying notes are an integral part of this statement.

Charter Township of Fruitport
STATEMENT OF NET ASSETS
 Proprietary Funds
 March 31, 2006

ASSETS

	Business-type Activities - Enterprise funds		
	Sewer	Water	Total
CURRENT ASSETS			
Cash and investments	\$ 131,285	\$ 2,643,623	\$ 2,774,908
Receivables			
Accounts	23,712	163,872	187,584
Special assessments	180,989	122,334	303,323
Interest	27,600	18,656	46,256
Due from other governmental units	43,249	153,505	196,754
Inventories	-	10,000	10,000
Prepaid items	-	12,889	12,889
Total current assets	406,835	3,124,879	3,531,714
NONCURRENT ASSETS			
Restricted assets	1,995,975	672,973	2,668,948
Capital assets			
Utility systems	5,715,056	11,046,126	16,761,182
Machinery	8,195	196,815	205,010
Vehicles	16,765	16,746	33,511
Construction in progress	-	860,077	860,077
Less accumulated depreciation	(734,013)	(2,771,837)	(3,505,850)
Net capital assets	5,006,003	9,347,927	14,353,930
Advances to other funds	-	363,089	363,089
Access rights, net	45,636	-	45,636
Bond issuance costs, net	24,440	-	24,440
Special assessments receivable	1,628,902	1,101,009	2,729,911
Total noncurrent assets	8,700,956	11,484,998	20,185,954
Total assets	9,107,791	14,609,877	23,717,668
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable	-	75,897	75,897
Accrued liabilities	2,110	64,510	66,620
Due to other funds	9,155	36,316	45,471
Due to other governmental units	-	52,618	52,618
Bonds and other obligations, due within one year	96,000	145,000	241,000
Total current liabilities	107,265	374,341	481,606
NONCURRENT LIABILITIES			
Advances from other funds	363,089	-	363,089
Bonds and other obligations, less amounts due within one year	3,299,781	2,626,505	5,926,286
Total noncurrent liabilities	3,662,870	2,626,505	6,289,375
Total liabilities	3,770,135	3,000,846	6,770,981
NET ASSETS			
Invested in capital assets, net of related debt	1,691,118	6,611,982	8,303,100
Restricted for debt service	1,995,975	614,803	2,610,778
Unrestricted	1,650,563	4,382,246	6,032,809
Total net assets	\$ 5,337,656	\$ 11,609,031	\$ 16,946,687

The accompanying notes are an integral part of this statement.

Charter Township of Fruitport
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 Proprietary Funds
 For the year ended March 31, 2006

	Business-type Activities - Enterprise funds		
	Sewer	Water	Total
REVENUES			
Charges for services	\$ 166,845	\$ 1,218,197	\$ 1,385,042
OPERATING EXPENSES			
Administration	21,549	52,313	73,862
Operations	169,768	1,087,701	1,257,469
Depreciation and amortization	129,554	248,199	377,753
Total operating expenses	320,871	1,388,213	1,709,084
Operating loss	(154,026)	(170,016)	(324,042)
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	200,432	179,664	380,096
Connection fees	353,757	876,544	1,230,301
Other	756	16,542	17,298
Interest expense	(203,558)	(152,718)	(356,276)
Total nonoperating revenues (expenses)	351,387	920,032	1,271,419
Income before contributions and transfers	197,361	750,016	947,377
Capital contributions	-	460,000	460,000
Transfers out	(50,000)	-	(50,000)
Change in net assets	147,361	1,210,016	1,357,377
Net assets at April 1, 2005	5,190,295	10,399,015	15,589,310
Net assets at March 31, 2006	\$ 5,337,656	\$ 11,609,031	\$ 16,946,687

The accompanying notes are an integral part of this statement.

Charter Township of Fruitport
STATEMENT OF CASH FLOWS
Proprietary Funds
For the year ended March 31, 2006

	Business-type Activities - Enterprise funds		
	Sewer	Water	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 122,558	\$ 1,070,626	\$ 1,193,184
Receipts from interfund services provided	-	9,815	9,815
Payments to suppliers	(113,770)	(646,926)	(760,696)
Payments to employees	(64,617)	(470,236)	(534,853)
Payments for interfund services used	(3,520)	(23,089)	(26,609)
Net cash used for operating activities	(59,349)	(59,810)	(119,159)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers out	(50,000)	-	(50,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital contributions	-	769,126	769,126
Connection fees	546,065	873,212	1,419,277
Advances from other funds (net)	14,886	(14,886)	-
Purchases of capital assets	(472,186)	(1,138,409)	(1,610,595)
Principal paid on capital debt	(234,683)	(132,859)	(367,542)
Interest paid on capital debt	(263,139)	(149,438)	(412,577)
Other receipts	756	16,542	17,298
Net cash provided by (used for) capital and related financing activities	(408,301)	223,288	(202,311)
CASH FLOW FROM INVESTING ACTIVITIES			
Investment earnings	200,432	179,664	380,096
Net increase (decrease) in cash and investments	(317,218)	343,142	25,924
Cash and investments at April 1, 2005	2,444,478	2,973,454	5,417,932
Cash and investments at March 31, 2006	<u>\$ 2,127,260</u>	<u>\$ 3,316,596</u>	<u>\$ 5,443,856</u>
Reconciliation of cash and investments to the balance sheet			
Cash and investments	\$ 131,285	\$ 2,643,623	\$ 2,774,908
Restricted assets	1,995,975	672,973	2,668,948
	<u>\$ 2,127,260</u>	<u>\$ 3,316,596</u>	<u>\$ 5,443,856</u>
Reconciliation of operating loss to net cash used for operating activities			
Operating loss	\$ (154,026)	\$ (170,016)	\$ (324,042)
Adjustments to reconcile operating loss to net cash used for operating activities			
Depreciation and amortization expense	129,554	248,199	377,753
Change in assets and liabilities			
Receivables, net	(44,287)	(147,571)	(191,858)
Internal balances	(3,520)	(23,089)	(26,609)
Prepaid items	-	(7,875)	(7,875)
Accounts payable	-	36,007	36,007
Accrued liabilities	12,930	4,535	17,465
Net cash used for operating activities	<u>\$ (59,349)</u>	<u>\$ (59,810)</u>	<u>\$ (119,159)</u>
Noncash financing activities			
Assumption of additional County debt	\$ 12,748	\$ -	\$ 12,748
Relief of guaranteed County debt	(13,590)	-	(13,590)

The accompanying notes are an integral part of this statement.

Charter Township of Fruitport
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
Fiduciary Funds
March 31, 2006

	<u>Agency Fund</u>
ASSETS	
Cash and investments	\$ 37,097
Due from other governmental units	<u>688</u>
Total assets	<u><u>37,785</u></u>
 LIABILITIES	
Due to other governmental units	\$ <u><u>37,785</u></u>

The accompanying notes are an integral part of this statement.

Charter Township of Fruitport
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Charter Township of Fruitport (Township) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Township's accounting policies are described below.

Reporting Entity

The Township is a municipal corporation governed by an elected seven-member Board.

Generally accepted accounting principles require that if the Township has certain oversight responsibilities over other organizations, those organizations should be included in the Township's financial statements. Since no organizations met this criteria, none are included in the financial statements.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Township. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. The Township does not allocate indirect costs.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Charter Township of Fruitport
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within 60 days of the end of the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Township reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Public Safety Fund is used to account for a special tax millage levied by the Township for the operations and capital expenditures of the police and fire departments.

The Township reports the following two major proprietary funds:

The Sewer Fund accounts for the collection system and pays for access to the county's sewage treatment plant.

The Water Fund operates the Township's water distribution system.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Township has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the Township's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges to customers for sales and services. The enterprise funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

Charter Township of Fruitport
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity

Deposits and Investments

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The Township reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Township intends to hold the investment until maturity.

The Township has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the Township to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers' acceptances, state-approved investment pools and certain mutual funds.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of allowance for uncollectibles.

The Township bills and collects its own property taxes and also collects taxes for the county, school and State of Michigan. Taxes are levied on each December 1 on the taxable valuation of property (as defined by state statutes) located in the Local Governmental Unit as of the preceding December 31. Uncollectible real property taxes as of the following March 1 are turned over by the Township to the County for collection. The County advances the Township all these delinquent real property taxes. The delinquent personal property taxes remain the responsibility of the Township. The Township recognizes all available revenue from the current tax levy. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2005 state taxable value for real/personal property of the Township totaled approximately \$374,700,000. The ad valorem taxes levied consisted of 1.0063, 2.479 and .5000 mills for the Township's general operating, public safety and street lighting purposes. These amounts are recognized in the respective General Fund, Public Safety Fund and Street Light Fund.

Charter Township of Fruitport
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when purchased rather than when consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets

Certain cash and investments of the Water and Sewer funds are held at Muskegon County where their use is restricted for bond and interest redemption and for future system expansion. Other resources of the Water and Sewer funds are classified as restricted assets as they are set aside for repayment of bonds and their use is limited by applicable bond covenants.

Capital Assets

Capital assets, which include property, plant and equipment are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment is depreciated or amortized using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20-40
Utility systems	50
Land improvements	20-30
Furniture and equipment	5-20
Vehicles	3-15
Access rights	20

Compensated Absences

Township employees are granted vacation and sick leave in varying amounts based on length of service. Employees must use earned vacation time during the anniversary year following the one in which it was earned. Upon termination, employees are paid for unused vacation at their current rates. Unused sick leave is accumulated up to 250 days for employees. Sick leave is paid to employees upon retirement under limits that vary by employee group. All vacation and sick pay is accrued when incurred in the government-wide and proprietary fund financial statements. The current portion of this liability is estimated based on historical trends. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Charter Township of Fruitport
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

The Township follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Prior to March 1, the Township Board proposes an operating budget for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted at the Township Hall to obtain taxpayer comments.
- c. Prior to April 1, the budget is legally enacted through passage of a resolution.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the Township Board.

The appropriated budget is prepared by fund, function and department. Transfers of appropriations between departments require the approval of the Township Board. The legal level of budgetary control is the department level for the General Fund and the fund level for all other governmental funds. The Township Board made several supplemental budgetary appropriations throughout the year.

Charter Township of Fruitport
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2006

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY—Continued

Excess of Expenditures Over Appropriations

During the year ended March 31, 2006, actual expenditures exceeded appropriations for:

	Amended budget	Actual
General Fund		
General office	\$ 64,570	\$ 67,392
Building and grounds	30,512	33,582
Other governmental functions	60,000	82,211
Debt service		
Principal	2,600	2,710
Public Safety Fund		
Fire	735,525	751,176
Debt service		
Principal	53,767	68,021
Street Light Fund		
Public works	129,200	130,987

These overexpenditures were funded with available fund balance.

NOTE C—DEPOSITS AND INVESTMENTS

As of March 31, 2006, the Township had the following investments:

Investment Type	Fair value	Weighted average maturity (Months)	Moody's	Percent
External investment pool	\$ 32,738	1	not rated	7.0 %
U.S. Agency obligations	240,719	21	AAA	51.5
Negotiable certificates of deposit	193,868	36	not rated	41.5
Total fair value	\$ 467,325			100.0 %
Portfolio weighted average maturity		26		

The Township voluntarily invests certain excess funds in an external investment pool (Pool). The Pool is an external investment pool of “qualified” investments for Michigan municipalities. The Pool is not regulated nor registered with the SEC. The fair value of the Township’s investments is the same as the fair value of the Pool.

Charter Township of Fruitport
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2006

NOTE C—DEPOSITS AND INVESTMENTS—Continued

Interest rate risk. The Township does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper and corporate bonds to the two highest classifications issued by nationally recognized statistical rating organizations (NRSROs). The Township has no investment policy that would further limit its investment choices.

Concentration of credit risk. The Township does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the Township investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. More than 5 percent of the Township's investments are in negotiable certificates of deposit issued by Flagstar Bank and Mercantile Bank, and in obligations issued by the Federal Home Loan Bank. These investments are 21.32 percent, 20.16 percent, and 51.51 percent, respectively, of the Township's investments.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. As of March 31, 2006, \$5,673,955 of the Township's bank balance of \$5,991,005 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. The Township does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Foreign currency risk. The Township is not authorized to invest in investments which have this type of risk.

Restricted Assets

Restrictions are placed on assets by bond ordinance and Township Board action. At March 31, 2006, restricted cash and investments in the Township are restricted as follows:

Business-type activities

Sewer Fund	
Debt	\$ 1,995,975
Water Fund	
Debt and capital improvements	<u>672,973</u>
	<u>\$ 2,668,948</u>

Charter Township of Fruitport
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2006

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2006 was as follows:

	Balance April 1, 2005	Additions	Deductions	Balance March 31, 2006
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 421,385	\$ -	\$ -	\$ 421,385
Capital assets, being depreciated:				
Land improvements	15,173	5,000	-	20,173
Buildings and improvements	678,900	-	-	678,900
Furniture and equipment	116,362	8,124	-	124,486
Vehicles	940,613	44,230	-	984,843
Total capital assets, being depreciated	1,751,048	57,354	-	1,808,402
Less accumulated depreciation:				
Land improvements	506	884	-	1,390
Buildings and improvements	314,616	13,630	-	328,246
Furniture and equipment	18,961	9,463	-	28,424
Vehicles	529,071	71,671	-	600,742
Total accumulated depreciation	863,154	95,648	-	958,802
Total capital assets, being depreciated, net	887,894	(38,294)	-	849,600
Capital assets, net	\$ 1,309,279	\$ (38,294)	\$ -	\$ 1,270,985
Business-type activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ 528,399	\$ 860,077	\$ 528,399	\$ 860,077
Capital assets, being depreciated:				
Utility systems	15,854,085	1,229,814	322,717	16,761,182
Machinery	239,926	15,593	50,509	205,010
Vehicles	-	33,511	-	33,511
Total capital assets, being depreciated	16,094,011	1,278,918	373,226	16,999,703

Charter Township of Fruitport
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2006

NOTE D—CAPITAL ASSETS—Continued

	Balance April 1, 2005	Additions	Deductions	Balance March 31, 2006
Business-type activities:—Continued				
Less accumulated depreciation:				
Utility systems	\$ 3,029,152	\$ 329,217	\$ 13,591	\$ 3,344,778
Machinery	183,358	23,196	50,509	156,045
Vehicles	-	5,027	-	5,027
Total accumulated depreciation	<u>3,212,510</u>	<u>357,440</u>	<u>64,100</u>	<u>3,505,850</u>
Total capital assets, being depreciated, net	<u>12,881,501</u>	<u>921,478</u>	<u>309,126</u>	<u>13,493,853</u>
Capital assets, net	<u><u>\$ 13,409,900</u></u>	<u><u>\$ 1,781,555</u></u>	<u><u>\$ 837,525</u></u>	<u><u>\$ 14,353,930</u></u>

Depreciation

Depreciation expense has been charged to functions as follows:

Governmental activities:

General government	\$ 2,660
Public safety	65,258
Public works	22,131
Culture and recreation	<u>5,599</u>
	<u><u>\$ 95,648</u></u>

Business-type activities:

Water	\$ 248,200
Sewer	<u>109,240</u>
	<u><u>\$ 357,440</u></u>

Charter Township of Fruitport
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2006

NOTE E—ACCESS RIGHTS

Access rights activity for the year ended March 31, 2006 was as follows:

	Balance April 1, 2005	Additions	Deductions	Balance March 31, 2006
Business-type activities				
Access rights	\$ 216,652	\$ 12,748	\$ 13,403	\$ 215,997
Less accumulated amortization	<u>152,630</u>	<u>18,569</u>	<u>838</u>	<u>170,361</u>
Access rights, net	<u>\$ 64,022</u>	<u>\$ (5,821)</u>	<u>\$ 12,565</u>	<u>\$ 45,636</u>

Amortization

Amortization expense has been charged to sewer.

NOTE F—BOND ISSUANCE COSTS

Bond issuance cost activity for the year ended March 31, 2006 was as follows:

	Balance April 1, 2005	Additions	Deductions	Balance March 31, 2006
Business-type activities				
Bond issuance costs	\$ 34,914	\$ -	\$ -	\$ 34,914
Less accumulated amortization	<u>8,728</u>	<u>1,746</u>	<u>-</u>	<u>10,474</u>
Bond issuance costs, net	<u>\$ 26,186</u>	<u>\$ (1,746)</u>	<u>\$ -</u>	<u>\$ 24,440</u>

Amortization

Amortization expense has been charged to interest.

NOTE G—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of March 31, 2006 is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Public Safety Fund	\$ 312,944
General Fund	Sewer Fund	9,155
General Fund	Water Fund	36,316
Recreation Fund	General	4,021
Revolving Road Fund	General	<u>90,926</u>
		<u>\$ 453,362</u>

Charter Township of Fruitport
NOTES TO FINANCIAL STATEMENTS—CONTINUED
 March 31, 2006

NOTE G—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS—Continued

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Advances to/from other funds:

The Water Fund has advanced \$363,089 to the Sewer Fund to fund capital improvements.

Interfund transfers:

	Transfers in:			Total	Purpose
	General Fund	Public Safety	Other governmental funds		
Transfers out:					
General Fund	\$ -	\$ 851,415	\$ 401,387	\$ 1,252,802	Operations subsidy
					Return funds from
Sewer Fund	<u>50,000</u>	<u>-</u>	<u>-</u>	<u>50,000</u>	prior debt subsidies
Total	<u>\$ 50,000</u>	<u>\$ 851,415</u>	<u>\$ 401,387</u>	<u>\$ 1,302,802</u>	

NOTE H—DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the governmental funds reported \$6,081 in deferred revenue which was comprised of unavailable special assessments.

NOTE I—LONG-TERM DEBT

Summary of Changes in Long-Term Liabilities

The following is a summary of long-term liabilities activity for the Township for the year ended March 31, 2006.

	Balance April 1, 2005	Additions	Reductions	Balance March 31, 2006	Due within one year
Governmental activities:					
Installment purchase agreements	\$ 281,640	\$ -	\$ 60,858	\$ 220,782	\$ 39,500
Land contract agreements	237,336	-	9,873	227,463	10,500
Compensated absences	<u>150,157</u>	<u>31,808</u>	<u>42,487</u>	<u>139,478</u>	<u>28,000</u>
Governmental activity long-term liabilities	<u>\$ 669,133</u>	<u>\$ 31,808</u>	<u>\$ 113,218</u>	<u>\$ 587,723</u>	<u>\$ 78,000</u>

Charter Township of Fruitport
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2006

NOTE I—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

	Balance April 1, 2005	Additions	Reductions	Balance March 31, 2006	Due within one year
Business-type activities:					
General obligation bonds	\$ 5,264,289	\$ 12,748	\$ 286,133	\$ 4,990,904	\$ 122,000
Special assessment debt	1,270,000	-	95,000	1,175,000	110,000
Less bond discount	(50,503)	5,504	-	(44,999)	-
Compensated absences	-	73,036	26,655	46,381	9,000
Business-type activity long-term liabilities	\$ <u>6,483,786</u>	\$ <u>91,288</u>	\$ <u>407,788</u>	\$ <u>6,167,286</u>	\$ <u>241,000</u>

Governmental activities:

Installment purchase agreements:

\$175,000 Fire Station Contract due in semi-annual
installments of \$5,833 through December 2008;
plus interest at 5.7% \$ 35,000

\$386,961 Fire Truck contract due in annual installments
of \$27,589 to \$34,546 through April 2011; plus interest
at 4.6% 185,782

Land contract agreements:

\$76,000 Land Contract due in quarterly installments
of \$1,850 to \$2,928 including interest at 7.50%
through October 2018 60,826

\$206,800 Land Contract due in quarterly installments
of \$5,000 to \$8,854 including interest at 7.50%
through January 2019 166,637

Compensated absences 448,245

139,478
\$ 587,723

Charter Township of Fruitport
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2006

NOTE I—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

Business-type activities:

General obligation bonds:

\$68,362 Muskegon County Wastewater Management System - Number One Refunding Bond Issue of 2002 due in annual installments of \$20,440 to \$20,831 through July 2008; interest at 5.00%	\$ 61,906
\$2,680,000 Muskegon County Wastewater Management System - Number One 1999 Series due in annual installments of \$100,000 to \$250,000 through May 2020; interest rates varying from 4.70% to 6.50%	2,430,000
Less bond discount	(19,007)
\$2,925,000 - Muskegon County Water Supply System - Number One Bonds, Series II due in annual installments of \$101,250 to \$247,500 through May 2020; interest rates varying from 4.75% to 6.75%	2,486,250
Less bond discount	(25,992)
\$180,250 Muskegon County Wastewater Management contract payable beginning in 2008; interest at 1.625%	12,748

Special assessment debt:

\$750,000 1994 Special Assessment Bonds due in annual installments of \$45,000 to \$70,000 through October 2013; interest rates varying from 7.90% to 8.0%	445,000
\$330,000 1995 Special Assessment Bonds due in annual installments of \$15,000 to \$25,000 through October 2009; interest rates varying from 5.3% to 5.5%	90,000

Charter Township of Fruitport
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2006

NOTE I—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

Business-type activities:

Special assessment debt:—Continued

\$585,640 2000 Special Assessment Sewer Bonds due in annual installments of \$28,395 to \$31,944 through January 2021; interest rates varying from 4.75% to 5.0%	\$ 454,313
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\$239,360 2000 Special Assessment Water Bonds due in annual installments of \$11,605 to \$13,060 through January 2021; interest rates varying from 4.75% to 5.0%	<u>185,687</u>
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Compensated absences	<u>46,381</u>
	<u>\$ 6,167,286</u>

The special assessment bonds are backed by the full faith and credit of the Township.

The \$2,925,000 Muskegon County Water Supply System Number One Series II bond issue is a joint debt agreement entered into by the Township and the City of Norton Shores. Under the agreement, the County issued debt and constructed a water supply system for the benefit of both governmental units. The County owns and maintains the system and upon full payment by either local unit of its allocated portion of the debt, the County may convey full ownership of the respective portions of the system to the local unit. Each local unit's share of the debt is based on user charges and the state's equalized valuation on real property.

The County of Muskegon wastewater contracts payable represent agreements with Muskegon County relating to the construction of sewage treatment facilities. To construct these facilities, the County issued bonds which local municipalities are obligated to repay. The Township has recorded the liability for its portion of the County bonds which are to be repaid by the access rights fee. Access rights are also recorded and are amortized over 20 years. The contractual obligation is secured by the full faith and credit of the Township. Current debt service requirements are funded by sewer revenues.

The Township was in compliance in all material respects with all the revenue bond ordinances at March 31, 2006.

Charter Township of Fruitport
NOTES TO FINANCIAL STATEMENTS—CONTINUED
 March 31, 2006

NOTE I—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

Annual debt service requirements to maturity for debt outstanding as of March 31, 2006 follows:

Year ending March 31,	Governmental activities		Business-type activities	
	Principal	Interest	Principal	Interest
2007	\$ 50,000	\$ 27,140	\$ 232,000	\$ 262,115
2008	52,000	24,386	345,000	306,515
2009	54,000	21,511	354,000	285,931
2010	45,000	18,671	334,000	265,467
2011	47,000	16,193	369,000	244,014
2012-2016	124,000	48,604	2,105,000	885,341
2017-2021	76,245	9,799	2,426,904	320,243
	<u>\$ 448,245</u>	<u>\$ 166,304</u>	<u>\$ 6,165,904</u>	<u>\$ 2,569,626</u>

NOTE J—DESIGNATED FUND BALANCE

Unreserved fund balances designated for specific purposes as of March 31, 2006 were as follows:

General Fund	
Designated for parks	\$ 18,613
Designated for bike paths	90,000
Designated for new Township hall	100,000
	<u>\$ 208,613</u>

NOTE K—OTHER INFORMATION

Risk Management

The Township is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Township manages its liability, property and insurance coverage as a member of the Michigan Township Participating Plan (MTPP), a public entity risk pool providing liability and property coverage to its participating members. The Township pays an annual premium to MTPP for its insurance coverage. The MTPP is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence based property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

Charter Township of Fruitport
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2006

NOTE K—OTHER INFORMATION—Continued

Risk Management—Continued

The Township manages its workers' compensation risk by participating in the Michigan Municipal Workers' Compensation Self-Insurance Fund (MMWCSIF), a public entity risk pool providing workers' compensation coverage to its participating members. The Township pays an annual premium to MMWCSIF for its workers' compensation coverage. The MMWCSIF is self-sustaining through member premiums and provides statutory workers' compensation coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The Township carries commercial insurance for employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Related Party Transactions

In prior years, the government purchased two pieces of land using land contracts. The seller of the land is a close relative to a board member. The balance of the two land contracts at March 31, 2006 are \$227,463. During the year ended March 31, 2006, the Township paid principal and interest of \$27,401 on the land contracts.

Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state government. Any disallowed claims, including amounts already collected, may constitute a liability to the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the Township expects such amounts, if any, to be immaterial.

The Township is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Township's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the Township.

Post-Retirement Health Care

The Township has agreed to provide post-retirement health care to certain employees after they retire.

As of year end, there were two retired employees receiving benefits. The Township finances the Plan on a pay-as-you-go basis. For the year ended March 31, 2006, the Township's post-retirement health care cost under the Plan was approximately \$19,000.

Commitments

The Township has various contract agreements for projects as of March 31, 2006 of approximately \$2,199,408, of which \$860,077 has already been spent.

Charter Township of Fruitport
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2006

NOTE L—RETIREMENT PLAN

Defined Contribution Pension Plan

The Township maintains a defined contribution retirement plan administered by Manulife Financial USA that covers substantially all full-time employees. The Township contributes 10 percent of each eligible employee's salary to the plan. Township employees contribute nothing to the plan. The Township's contribution for the year ended March 31, 2006 was \$151,125.

NOTE M—ECONOMIC DEPENDENCY

State of Michigan shared revenues represent 45 percent of General Fund revenues.

NOTE N—PRIOR PERIOD ADJUSTMENT

Governmental activities capital assets were restated due to the effect of the addition of land which was not included in prior years.

	Governmental activities
Net assets at April 1, 2005	\$ 2,099,733
Capital assets, net	<u>380,500</u>
Net assets at April 1, restated	<u><u>\$ 2,480,233</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

Charter Township of Fruitport
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
General Fund
For the year ended March 31, 2006

	Budgeted amounts		Actual	Variance with final budget- positive (negative)
	Original	Final		
REVENUES				
Property taxes	\$ 1,423,497	\$ 518,661	\$ 555,990	\$ 37,329
Licenses and permits	107,000	107,000	114,536	7,536
Intergovernmental revenues - state	810,384	810,384	807,438	(2,946)
Charges for services	169,900	169,900	177,003	7,103
Fines and forfeitures	200	200	1,208	1,008
Investment earnings	8,000	8,000	50,121	42,121
Other	87,150	87,150	75,754	(11,396)
Total revenues	2,606,131	1,701,295	1,782,050	80,755
EXPENDITURES				
Current				
General government				
Township board	90,453	140,453	133,264	7,189
Supervisor	99,215	99,215	98,681	534
Elections	5,500	9,928	1,742	8,186
Assessing	145,051	145,051	127,473	17,578
Clerk	57,033	57,049	56,142	907
Treasurer	123,186	123,170	115,901	7,269
General office	64,570	64,570	67,392	(2,822)
Board of review	2,300	2,300	1,163	1,137
Building and grounds	22,550	30,512	33,582	(3,070)
Cemetery	71,150	71,946	61,849	10,097
Public safety				
Police	859,650	-	-	-
Fire	735,525	-	-	-
Crossing guards	7,500	-	-	-
Public works				
Roads	471,700	171,700	106,873	64,827
Bike path	111,000	111,000	11,173	99,827
Community and economic development				
Planning	25,380	25,380	16,673	8,707
Zoning	20,600	20,600	4,629	15,971
Culture and recreation				
Racetrack	45,630	61,575	59,727	1,848
Library	18,000	18,000	17,771	229
Other governmental functions	60,000	60,000	82,211	(22,211)
Debt service				
Principal	75,767	2,600	2,710	(110)
Interest and fees	28,000	5,000	4,690	310
Capital outlay	131,650	47,520	8,123	39,397
Total expenditures	3,271,410	1,267,569	1,011,769	255,800
Excess of revenues over (under) expenditures	(665,279)	433,726	770,281	336,555
OTHER FINANCING SOURCES (USES)				
Transfers in	50,000	50,000	50,000	-
Transfers out	(120,000)	(1,267,206)	(1,252,802)	14,404
Total other financing sources (uses)	(70,000)	(1,217,206)	(1,202,802)	14,404
Net change in fund balance	\$ (735,279)	\$ (783,480)	(432,521)	\$ 350,959
Fund balance at April 1, 2005			1,621,729	
Fund balance at March 31, 2006			\$ 1,189,208	

Charter Township of Fruitport
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
Public Safety Fund
For the year ended March 31, 2006

	Budgeted amounts		Actual	Variance with final budget- positive (negative)
	Original	Final		
REVENUES				
Property taxes	\$ -	\$ 904,836	\$ 926,324	\$ 21,488
Intergovernmental revenues - federal	-	-	8,438	8,438
Investment earnings	-	-	114	114
Other	-	-	24,390	24,390
Total revenues	-	904,836	959,266	54,430
EXPENDITURES				
Current				
Public safety				
Police	-	857,850	834,790	23,060
Fire	-	735,525	751,176	(15,651)
Debt service				
Principal	-	53,767	68,021	(14,254)
Interest and fees	-	42,400	26,139	16,261
Capital outlay	-	62,500	44,230	18,270
Total expenditures	-	1,752,042	1,724,356	27,686
Excess of revenues over (under) expenditures	-	(847,206)	(765,090)	82,116
OTHER FINANCING SOURCES				
Transfers in	-	881,970	851,415	(30,555)
Net change in fund balance	\$ -	\$ 34,764	86,325	\$ 51,561
Fund balance at April 1, 2005			-	
Fund balance at March 31, 2006			\$ 86,325	

OTHER SUPPLEMENTAL INFORMATION

Charter Township of Fruitport
COMBINING BALANCE SHEET

Other Governmental Funds

March 31, 2006

	Total other governmental funds	Special Revenue		Capital Projects Revolving Road
		Recreation	Street Light	
ASSETS				
Cash and investments	\$ 266,204	\$ 1,459	\$ 264,745	\$ -
Receivables				
Property taxes	10,198	-	10,198	-
Special assessments	6,162	-	-	6,162
Due from other funds	94,947	4,021	-	90,926
Prepaid items	1,957	1,957	-	-
Total assets	<u>\$ 379,468</u>	<u>\$ 7,437</u>	<u>\$ 274,943</u>	<u>\$ 97,088</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 10,265	\$ -	\$ 10,265	\$ -
Accrued liabilities	921	921	-	-
Due to other governmental units	6,516	6,516	-	-
Deferred revenue	4,810	-	-	4,810
Total liabilities	22,512	7,437	10,265	4,810
Fund balances				
Reserved for capital projects	92,278	-	-	92,278
Unreserved	264,678	-	264,678	-
Total fund balances	356,956	-	264,678	92,278
Total liabilities and fund balances	<u>\$ 379,468</u>	<u>\$ 7,437</u>	<u>\$ 274,943</u>	<u>\$ 97,088</u>

Charter Township of Fruitport
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 Other Governmental Funds
 For the year ended March 31, 2006

	Total other governmental funds	Special Revenue		Capital Projects Revolving Road
		Recreation	Street Light	
REVENUES				
Property taxes	\$ 161,725	\$ -	\$ 161,725	\$ -
Investment earnings	5,866	42	5,824	-
Other	63,344	320	-	63,024
Total revenues	230,935	362	167,549	63,024
EXPENDITURES				
Current				
Public works	401,733	-	130,987	270,746
Culture and recreation	96,749	96,749	-	-
Capital outlay	5,000	5,000	-	-
Total expenditures	503,482	101,749	130,987	270,746
Excess of revenues over (under) expenditures	(272,547)	(101,387)	36,562	(207,722)
OTHER FINANCING SOURCES				
Transfers in	401,387	101,387	-	300,000
Net change in fund balances	128,840	-	36,562	92,278
Fund balances at April 1, 2005	228,116	-	228,116	-
Fund balances at March 31, 2006	\$ 356,956	\$ -	\$ 264,678	\$ 92,278

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

July 31, 2006

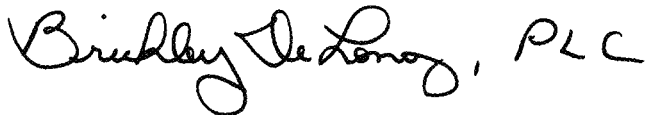
Township Board
Charter Township of Fruitport
Fruitport, Michigan

In planning and performing our audit of the financial statements of the Charter Township of Fruitport for the year ended March 31, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Charter Township of Fruitport's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. We have attached a summary of such reportable conditions.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

This report is intended solely for the information of the Township Board, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Brickley DeLong, PLC". The signature is written in a cursive, flowing style.

REPORTABLE CONDITIONS

General

Recommendation 1: A master file should be created with appropriate supporting details for all journal entries entered into the computer.

Journal entries are presently being made in instances which there is no supporting detail retained to substantiate the journal entries. This lack of supporting documentation leaves a poor audit trail and provides for difficult subsequent reference as to the nature of the journal entries.

The maintenance of documentation supporting journal entries would ensure the basis for journal entries is readily available upon request.

Recommendation 2: General ledger account balances should be regularly analyzed for their accuracy in relation to supporting documentation.

During our testing, we noted various account balances that were not analyzed for unusual balances during the year. This resulted in a large number of adjustments at year end. Since some of the adjustments were individually significant to the affected funds and their accounts, the adjustments significantly affected the interim financial statements.

The timely review and analysis of all general ledger account balances throughout the year and the reconciliation of significant account balances to supporting schedules would improve the accuracy of interim financial statements.

Cash Receipts

Recommendation 3: The maintenance of cash receipts records should be improved.

During our testing, we noted that cash receipt packets were not filed in order by date. We also noted that an adding machine tape was not attached to the deposit slip detailing what items were included in the deposit and a reconciliation was not included for deposits different from cash collected for that day.

The improved maintenance of cash receipts records would ensure that documentation supporting deposits is readily available upon request.

Credit cards

Recommendation 4: Credit card statements should have appropriate supporting documentation attached.

During our detailed tests of cash disbursements, we noted several instances in which the Township paid credit card invoices without proper supporting documents attached.

Proper supporting documentation would reduce the possibility of incorrect payment of credit card invoices or Township funds being misappropriated.

REPORTABLE CONDITIONS—CONTINUED

Fixed Assets

Recommendation 5: Fixed asset acquisitions should be charged to the proper asset account.

While reviewing expense accounts, we noted fixed asset/capital outlay transactions recorded in expenditure accounts other than fixed asset or capital outlay accounts. This condition causes the interim financial statements to be misstated by the amount of fixed asset expenditures which should be capitalized or classified as capital outlay expenditures.

The proper recording of capital expenditures in the proper fixed asset or capital outlay accounts would improve the accuracy of interim financial statements.

Data Processing

Recommendation 6: The special assessment module should be kept up to date.

During the audit, we noted that special assessment records were maintained in manual ledger books and that the computerized special assessment program was not being utilized to report special assessments.

The complete implementation of the computer accounting system would reduce the time required to compile special assessment balances and would reduce the possibility of manual errors occurring in the accounting records. This module could also reduce the amount of time required to analyze accounts and increase the number of reports available to management.